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1                   UNITED STATES DISTRICT COURT  
2                   DISTRICT OF SOUTH DAKOTA  
2                   NORTHERN DIVISION

3 \*  
4     SIOUX RURAL WATER SYSTEM, INC.,       \* 1:15-CV-01023-CBK  
4     A NON-PROFIT CORPORATION,               \*  
4    \*  
5                   Plaintiff,                  \*  
5    \*  
6     vs.                                        \*  
6    \*  
7     CITY OF WATERTOWN, A SOUTH              \*  
8     DAKOTA MUNICIPALITY; AND                \*  
8     WATERTOWN MUNICIPAL UTILITIES,        \*  
9     AN AGENCY OF THE CITY OF                \*  
9     WATERTOWN,                                \*  
9    \*

10                   Defendants.  
10    \*  
11    \* \* \* \* \*

12

13                   D E P O S I T I O N

14                   O F

15                   STEVE LEHNER

16                   February 16, 2016

17                   9 o'clock, a.m.

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21     Taken at:  
22     Offices of Watertown Municipal Utilities  
22     901 Fourth Avenue SW  
23     Watertown, South Dakota

24     Reporter: Tammy Stolle, RPR

25

EXHIBIT

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1 MR. HIEB: Yeah, I just --  
 2 Q. (BY MR. COLE) Okay. Now the economics of  
 3 acquiring existing rural water distribution systems, are they  
 4 ever considered when the city provides water such as you have  
 5 and as shown in Defendant 871 to 881?  
 6 A. Now when you're -- we don't have a formal formula  
 7 for economics. We get a request from a customer. We'll look  
 8 at, you know, whether or not the city is growing in that  
 9 area. We have lots of requests for water outside of the city  
 10 limits and typically we don't -- we follow our policy and  
 11 don't provide water to those folks.

12 If there's a reason, a significant reason to do  
 13 so, then our board considers it. We don't base it solely on  
 14 an economic evaluation of the price to take it there or the  
 15 revenue back or a payback in terms of -- because it's  
 16 generally something that's going to be annexed into the city  
 17 and we have that obligation to serve them when they're  
 18 annexed.

19 Q. Do you know how long some of those customers have  
 20 been served by the city?

21 MR. HIEB: You're referencing DEF-871?

22 MR. COLE: Yes. Sorry.

23 MR. HIEB: That's okay.

24 A. It looks like the date is right on the sheet.

25 Q. (BY MR. COLE) What's the latest, or the longest

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1 MR. COLE: It's on page seven.  
 2 MR. HIEB: Okay. (Handing.) It's in front of  
 3 him.  
 4 Q. (BY MR. COLE) And one of the answers here, or  
 5 part of the answer, I should be clear on this, it says, "All  
 6 of its policies, procedures and/or directives were drafted  
 7 pursuant to 9-47." Do you see that?

8 A. Sure.

9 Q. Is that your understanding of MU policies,  
 10 procedures or directives?

11 A. I don't have a copy of 9-47 in front of me, I  
 12 guess.

13 Q. Yeah, I'm just asking, is it your understanding  
 14 that all of MU's policies, procedures, and/or directives were  
 15 drafted pursuant to SDCL 9-47?

16 A. We follow the state law when it comes to  
 17 annexation, so I'm assuming 9-47 deals with that.

18 Q. And I'm just -- I'm going to try to get a clearer  
 19 answer to that, and if you've answered the question, I  
 20 apologize to you, but are MU's policies, procedures and/or  
 21 directives drafted pursuant to SDCL 9-47 to your  
 22 understanding?

23 A. I would say that not all of our policies are  
 24 drafted to 9-47 because we have policies for every aspect of  
 25 our operation and not every aspect of our operation deals

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1 time someone's been served outside the city limits based on  
 2 what you see in Defendant 871?  
 3 A. It looks like about 1990 would be the -- well,  
 4 1971 would be Western Area Power Administration or the Bureau  
 5 of Reclamation.

6 Q. Okay. When you talk about your policy, you're  
 7 talking about MU's policy?

8 A. Correct.

9 Q. And in MU's policy, does it specifically state  
 10 that you're not going to provide water outside the city  
 11 limits?

12 A. Without approval of the board. There is a  
 13 provision for approval of the board to do so. As with all of  
 14 our policies, the board can approve deviations from it.

15 Q. Does the city council ever approve MU providing  
 16 water outside Watertown city limits?

17 A. I don't believe so, no. That's a Utility board  
 18 decision.

19 Q. Now one of the things that the city and MU has  
 20 provided to us are answers to request for production of  
 21 documents, and specifically, Jack, 19. I'm going to ask him  
 22 a couple questions about that.

23 MR. HIEB: Your request to us?

24 MR. COLE: Yes.

25 MR. HIEB: Okay.

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1 with 9-47.

2 Q. Fair answer. But with regard to specifically the  
 3 acquisition or annexation of areas that include water --  
 4 areas served by rural water systems, you have utilized SDCL  
 5 9-47 in the drafting of your policies, procedures, and/or  
 6 directives, true?

7 A. Correct.

8 Q. And this question may draw an objection, but  
 9 what's your understanding of what SDCL 9-47 does?

10 MR. HIEB: Well, you did it. Objection. Calls  
 11 for a legal conclusion. Lack of foundation.

12 Q. (BY MR. COLE) Just asking your understanding.

13 A. My understanding is that when we annex a  
 14 customer, or we annex a property, a customer that's being  
 15 served by Sioux Rural Water, we have an obligation to buy out  
 16 what system is there providing service to them and pay, I  
 17 believe it's five percent gross revenues for five years.

18 Q. And when that happens, is it your understanding  
 19 that it's MU's decision on whether or not it will serve a  
 20 customer that has previously been served by Sioux?

21 MR. HIEB: Objection. Calls for a legal  
 22 conclusion. Go ahead.

23 A. Repeat the question.

24 MR. COLE: Could you read it back, please?

25 (The requested portion of the record was read by